

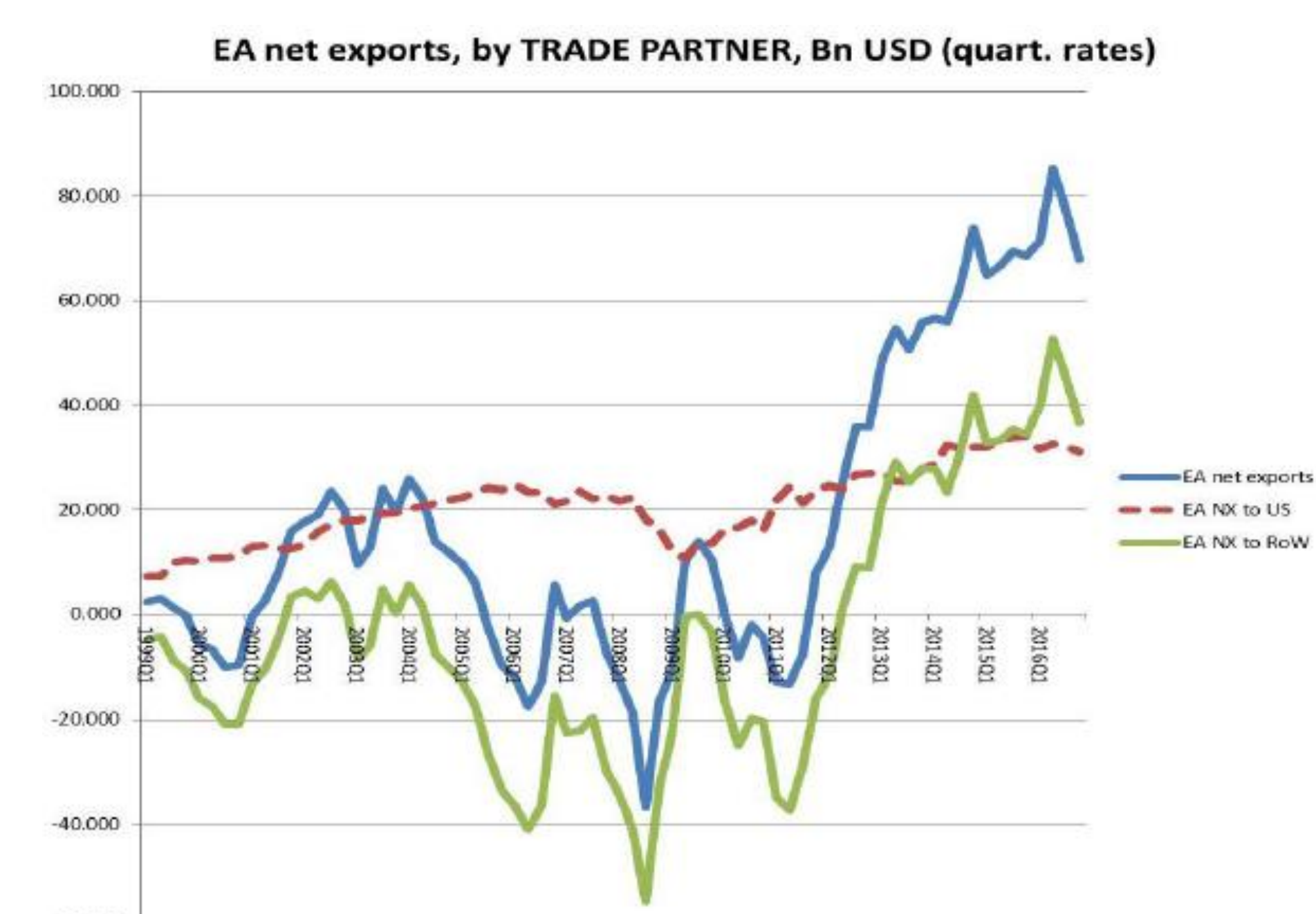
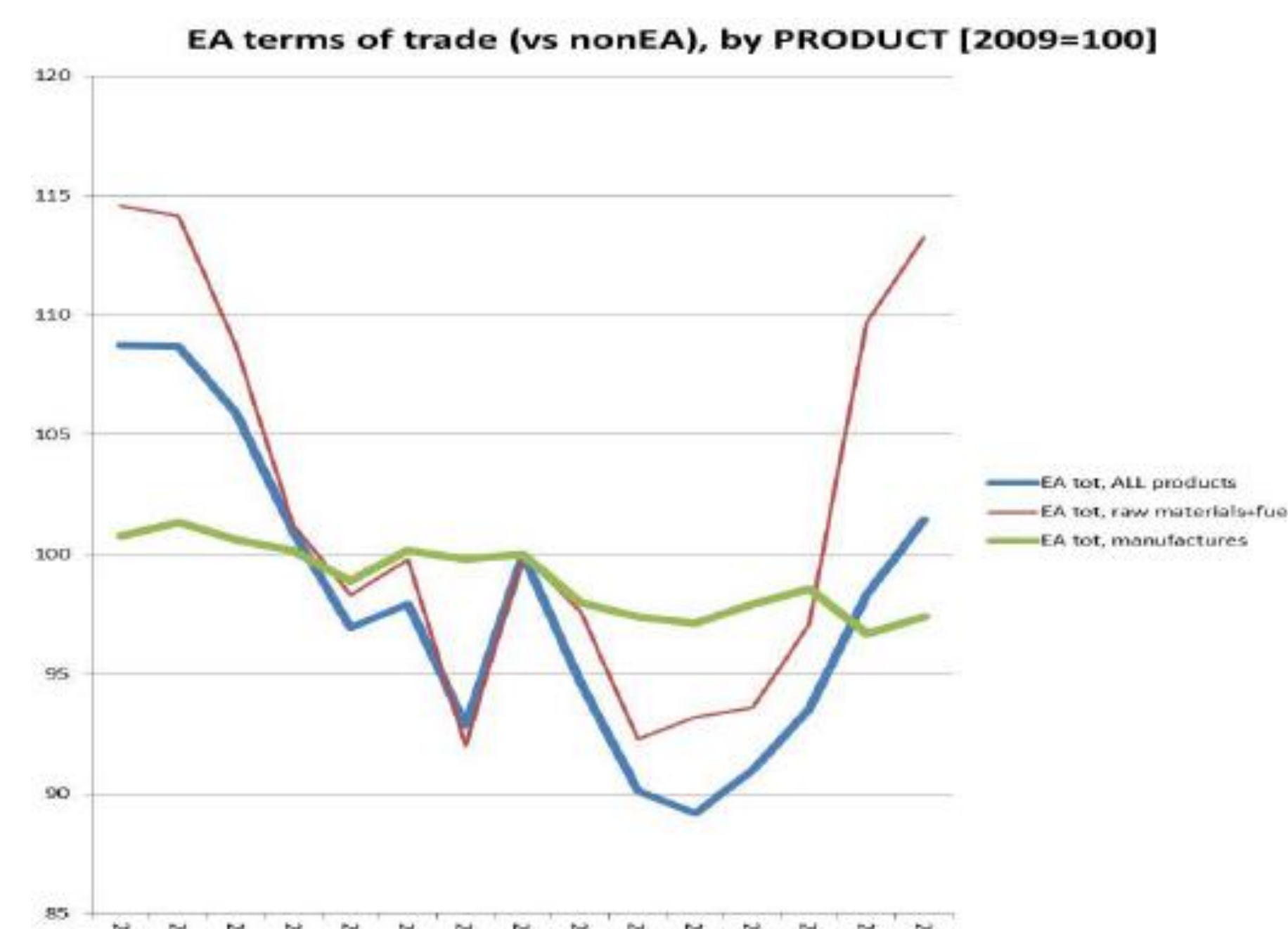
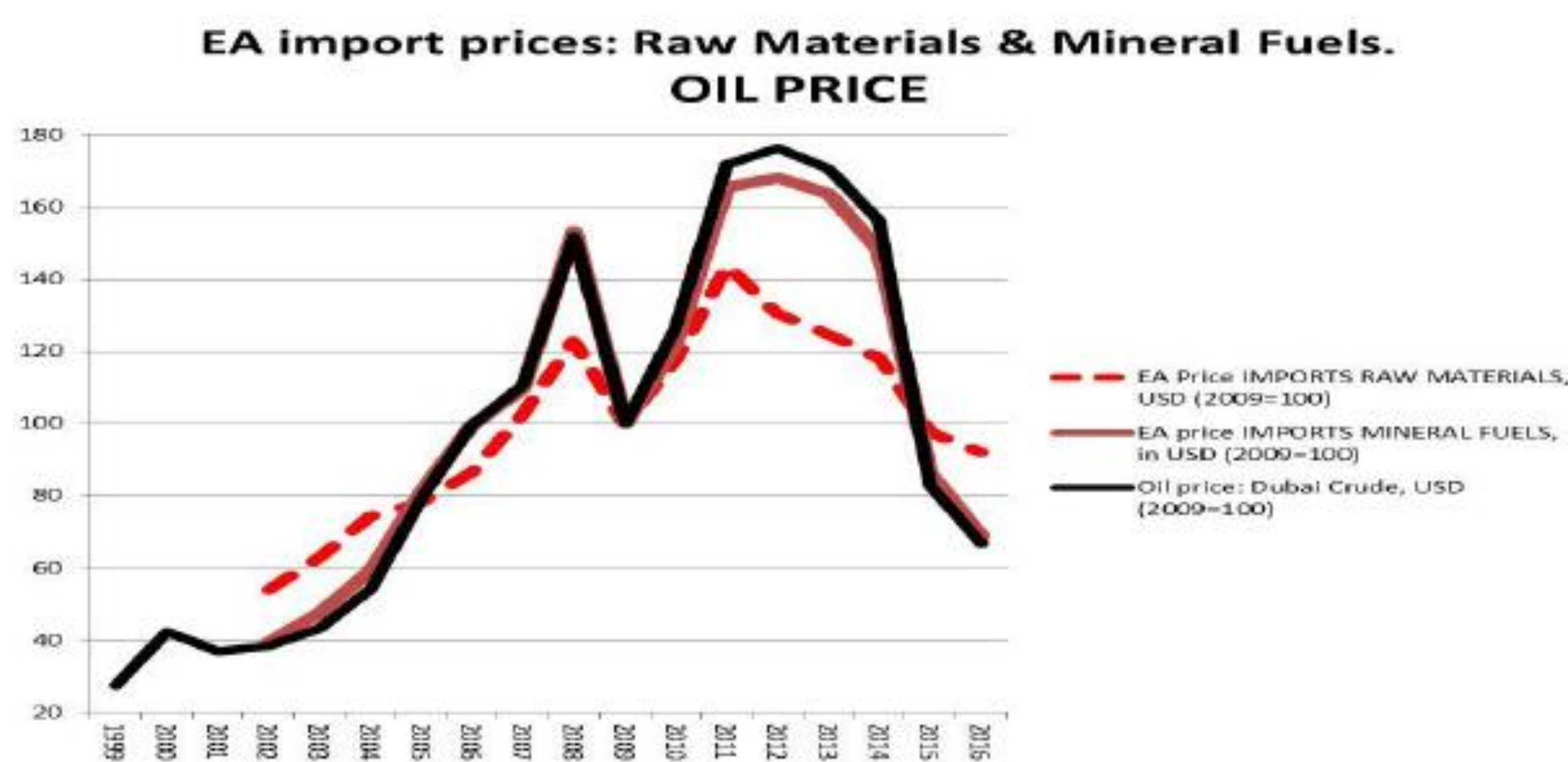
US and Euro Area External Adjustment: The Role of Commodity Prices and Emerging Market Growth

JEL: F4 (primary); F3 (secondary)

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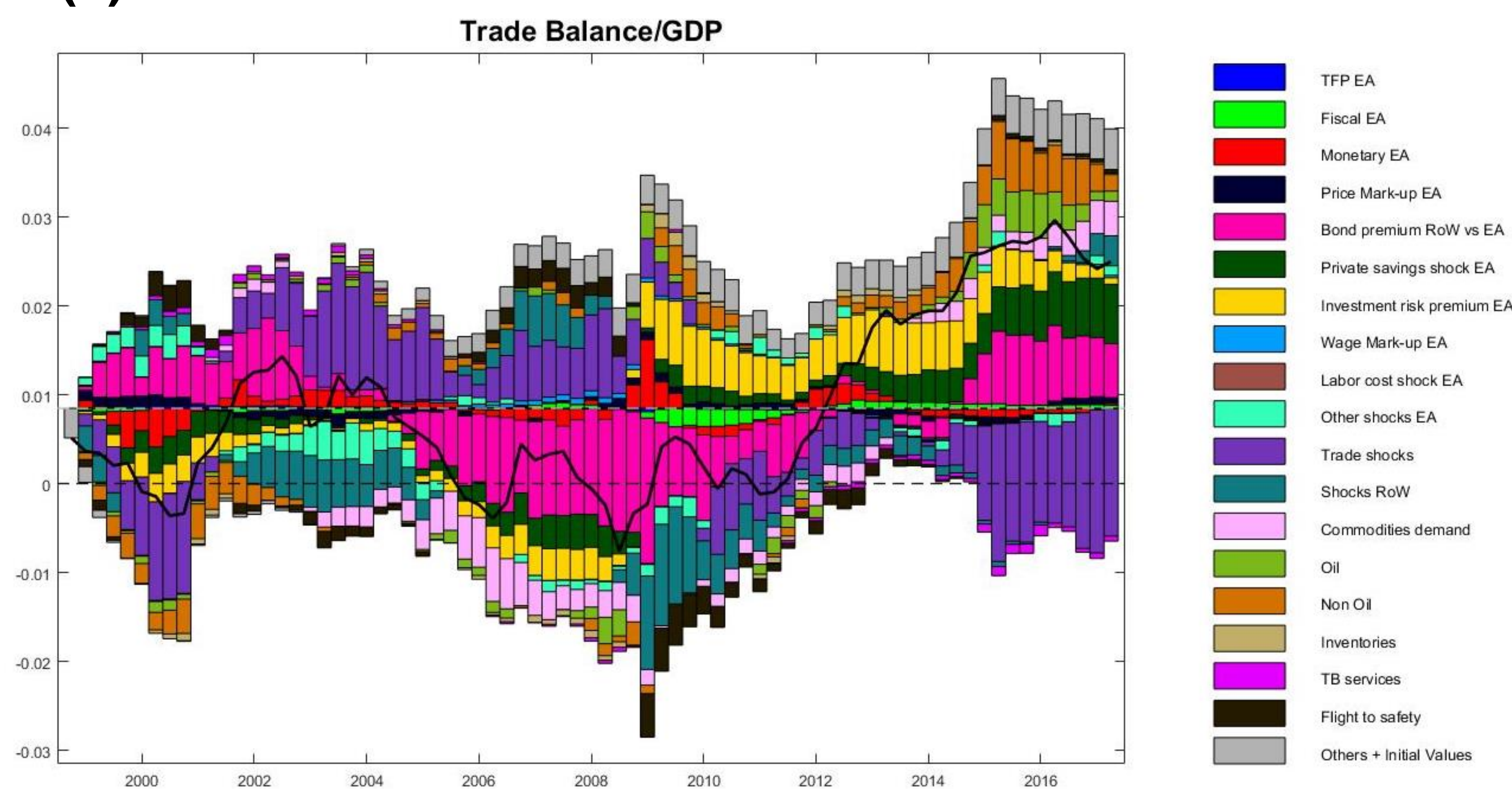
- ▶ Trade balances (TBs) of US and, especially, Euro Area (EA) have improved after Global Financial Crisis
- ▶ Widely viewed as largely reflecting weak domestic demand & deleveraging
- ▶ This paper challenges conventional view
- ▶ Paper finds that commodity prices are key drivers of US and EA TBs
- ▶ Sharp post-2012 fall in commodity prices, and Euro depreciation explain bulk of EA TB surge
- ▶ Impact of EA domestic shocks on EA TB is much more modest

- ▶ Commodity markets also play key role for transmission of Emerging Markets (EM) shocks to the US and EA.
- ▶ EM productivity growth has weak effect on EA GDP, when effect on commodity prices is taken into account
- ▶ **Methodological contribution:** Bayesian estimation of a three-region (EA, US, rest of world) DSGE model with trade in manufactured goods and in commodities. In model, world commodity price reflects global demand and supply conditions (market clearing)
- ▶ Broader lessons: Emerging Markets and commodity prices are key drivers of advanced countries' trade balances and terms of trade

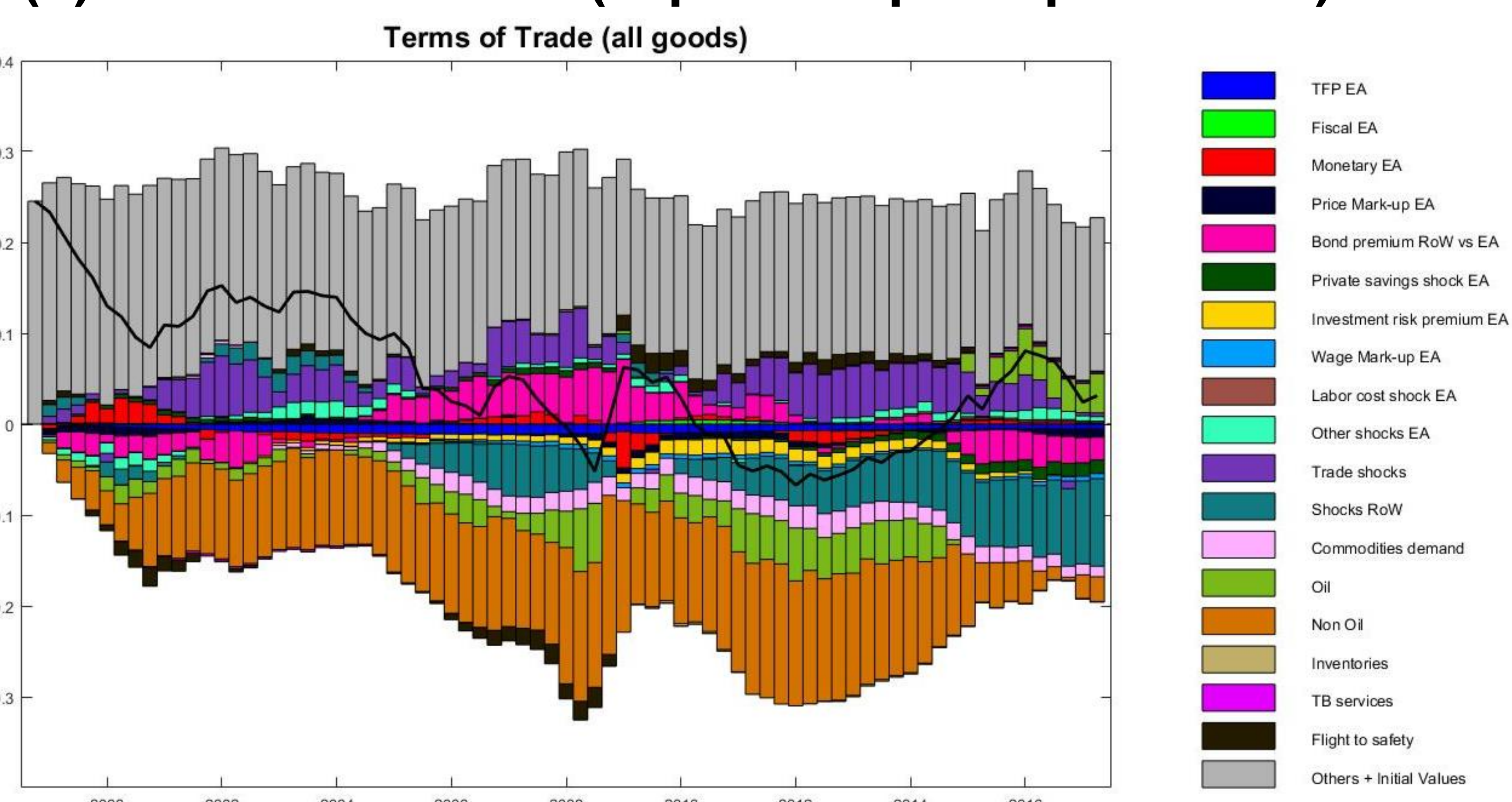


Historical decompositions (based on estimated model):

(a) Euro Area trade balance/GDP



(b) EA terms of trade (exports/imports price ratio)



Black continuous line: historical data. Vertical bars show contributions of different shocks. Bars above (below) dashed horizontal line show positive (negative) contributions